

DAFTER TOWNSHIP, CHIPPEWA COUNTY

STATE OF MICHIGAN

AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

March 31, 2006

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Dafter Township	County Chippewa
Fiscal Year End March 31, 2006	Opinion Date September 7, 2006	Date Audit Report Submitted to State November 9, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

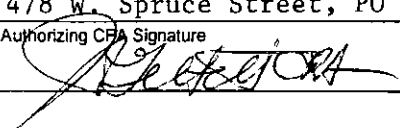
We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Gillett, Halvorsen & Leonhardt, PC		Telephone Number (906) 635-1589	
Street Address 478 W. Spruce Street, PO Box 437		City Sault Ste. Marie	State Zip MI 49783
Authorizing CPA Signature 		Printed Name James A. Gillett	License Number 014856

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GILLETT, HALVORSEN & LEONHARDT, P.C.

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MEMBER OF THE MICHIGAN
ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF THE AMERICAN
INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Township Board
Dafter Township
Dafter, MI 49721

We have audited the accompanying financial statements of the governmental activities and each major fund and the aggregate remaining fund information of Dafter Township as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the Table of Contents. These basic financial statements are the responsibility of Dafter Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, each Major Fund and aggregate remaining fund information of Dafter Township as of March 31, 2006, and the respective changes in financial position where applicable thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Dafter Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments as of April 1, 2005. This results in a change in the format and content of the basic financial statements.

The Management's Discussion and Analysis on pages 3-7 and the budgetary comparisons on pages 32-34 are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States

of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purposed of forming opinions on the financial statements that collectively comprise the Dafter Township's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gillett Halvorsen & Leonhardt PC

Gillett, Halvorsen & Leonhardt, PC
Certified Public Accountants

September 7, 2006
Sault Ste. Marie, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

DAFTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2006

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Within this section of Dafter Township annual financial report, the Township's management provides a narrative discussion and analysis of the financial activities of the Township for the fiscal year ended March 31, 2006. Dafter Township's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Township's primary government, unless otherwise noted.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The Township also includes in this report additional information to supplement the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Township's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information of the Township's overall status. Financial reporting on this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the Statement of Net Assets. This is the township-wide statement of financial position presenting information that includes all of the Township's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township as a whole is improving or deteriorating. Evaluation of the overall economic health of the Township would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of Township infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the Statement of Activities which reports how the Township's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of this statement of activities is to show financial reliance of the Township's distinct activities or functions on revenues provided to the Township.

DAFTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

March 31, 2006

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FUND FINANCIAL STATEMENTS

The Township has two kinds of funds:

Governmental funds are reported in the financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the Township's governmental funds. The statements report short-term fiscal accountability focusing on the use of spendable resources available at the end of the year. These are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between the two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balance provide a reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

Budgetary comparison statements are included in the basic financial statements for the general fund. These statements and schedules demonstrate compliance with the Township's adopted and final revised budget.

Fiduciary funds such as the Pension Trust Fund are reported in the fiduciary fund financial statements, but are excluded from the government-wide reporting. Fiduciary fund financial statements report resources that are not available to fund Township programs. Fiduciary fund financial statements report similarly to proprietary funds.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, which follows the notes to the financial statements.

DAFTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

March 31, 2006

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TOWNSHIP AS A WHOLE

The Township's assets exceed its liabilities by \$507,790 for the fiscal year reported.

Total net assets are comprised of the following:

- (1) Capital assets of \$128,100 include land, property and equipment net of accumulated depreciation.
- (2) Net assets of \$6,255 are restricted by constraints imposed from outside the Township such as grantors, laws or regulations.
- (3) Unrestricted net assets of \$373,435 represent the portion available to maintain the Township's continuing obligations.

The Township's governmental funds reported total ending fund balance of \$379,690 this year. This compares to the prior year ending fund balance of \$367,912 showing an increase of \$11,778 during the current year.

The Township implemented GASB-34 accounting procedures for the period beginning April 1, 2005, therefore a comparative analysis cannot be performed this year. A comparative analysis will not be performed in future years because Townships with a population of less than 2,000 people are required to be audited every other year.

In a condensed format, the table below shows the net assets of the Township at March 31, 2006.

	Governmental Activities -----
Current assets	\$380,417
Restricted assets	6,255
Non-current assets	128,100

Total Assets	\$514,772

Current Liabilities	\$ 6,982

Net Assets	
Invested in capital assets	\$128,100
Restricted	6,255
Unrestricted	373,435

Total Net Assets	\$507,790
	=====

DAFTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

March 31, 2006

=====

THE TOWNSHIP AS A WHOLE (CONTINUED)

The following table shows the activities of Dafter Township for the year ended March 31, 2006.

	Governmental Activities -----
Program Revenues	
Charges for services	\$119,362
Operating grants	7,577
General Revenues	
Taxes	52,593
Payments in lieu of taxes	4,283
Interest income	9,387
Other income	3,435

Total Revenues	\$196,637
Program Expenses	
Legislative	\$ 3,725
General government	63,004
Public safety	44,048
Public works	61,196
Culture and recreation	100
Other expenses	26,973

Total Expenses	\$199,046

Change in Net Assets	\$ (2,409)
	=====

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUND

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported an ending fund balance of \$379,690. Of this year end total, \$373,435 is unreserved indicating availability for continuing Township activities. Reserved fund balances include \$6,255 committed to public works.

DAFTER TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

March 31, 2006

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FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS (CONTINUED)

The general fund pays for all the Township's governmental services. These services were largely supported by property taxes and state shared revenues.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Township Board amended the budget to take into account events during the year. The Township's actual expenditures exceeded the budgeted expenditures in two instances for a total of \$2,862 for the year ended March 31, 2006.

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of 2006, the Township had \$128,100 invested in a broad range of capital assets net of accumulated depreciation, including building, fixtures and office equipment. In addition, the Township has invested significantly in roads within the Township. The roads are not reported in the Township's financial statements because of Michigan law, which makes these roads the property of the Chippewa County Road Commission (along with the responsibility to maintain them).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Because of the impact of Proposal A, the Township needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of 5% or inflation. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Township will grow less than by inflation, before considering new property additions. Also, reductions in State Revenue sharing continues to impact the township.

CONTACTING THE TOWNSHIP'S MANAGEMENT

The financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Supervisor's office at: 2926 W. 10 Mile Road, Dafter, MI 49724 or (906) 632-1570.

BASIC FINANCIAL STATEMENTS

DAFTER TOWNSHIP
STATEMENT OF NET ASSETS

March 31, 2006

=====

GOVERNMENTAL
ACTIVITIES

=====

ASSETS

Current Assets

Cash and equivalents	\$359,941
Due from other funds	192
Due from other governmental units	14,863
Taxes receivable	5,421

Total Current Assets	\$380,417
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Restricted Assets

Cash and equivalents	6,255
----------------------	-------

Non-current Assets

Buildings and equipment - net of depreciation	128,100

TOTAL ASSETS	\$514,772
	=====

LIABILITIES

Current Liabilities

Accounts payable	\$ 1,561
Deferred revenue - taxes receivable	5,421

TOTAL LIABILITIES	\$ 6,982
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NET ASSETS

Invested in capital assets	\$128,100
Restricted for: Public works	6,255
Unrestricted	373,435

TOTAL NET ASSETS	\$507,790
	=====

See accompanying notes to financial statements.

DAFTER TOWNSHIP

STATEMENT OF ACTIVITIES

For the year ended March 31, 2006

PROGRAM REVENUES					
FUNCTIONS/PROGRAMS	CHARGES			NET	
	EXPENSES	SERVICES	OPERATING GRANTS	CAPITAL GRANTS	(EXPENSES) REVENUES
GOVERNMENTAL ACTIVITIES					
Legislative	\$ 3,725	\$ -0-	\$ -0-	\$ -0-	\$ (3,725)
General government	63,004	116,394	-0-	-0-	53,390
Public safety	44,048	-0-	7,577	-0-	(36,471)
Public works	61,196	2,968	-0-	-0-	(58,228)
Cultural and recreation	100	-0-	-0-	-0-	(100)
Other expenditures	26,973	-0-	-0-	-0-	(26,973)
TOTAL GOVERNMENTAL ACTIVITIES	\$199,046	\$119,362	\$ 7,577	\$ -0-	\$ (72,107)
GENERAL REVENUES					
Taxes					52,593
Payments in lieu of taxes					4,283
Interest income					9,387
Other income					3,435
TOTAL GENERAL REVENUES					\$ 69,698
CHANGE IN NET ASSETS					\$ (2,409)
NET ASSETS - APRIL 1, 2005					510,199
NET ASSETS - MARCH 31, 2006					\$ 507,790

See accompanying notes to financial statements.

DAFTER TOWNSHIP

BALANCE SHEET - GOVERNMENTAL FUNDS

March 31, 2006

	GENERAL FUND	FIRE FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash and equivalents	\$363,285	\$ 2,911	\$366,196
Due from other funds	192	-0-	192
Due from other governmental units	14,863	-0-	14,863
Taxes receivable	5,421	-0-	5,421
	-----	-----	-----
TOTAL ASSETS	\$383,761	\$ 2,911	\$386,672
	=====	=====	=====
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 1,169	\$ 392	\$ 1,561
Deferred revenue - taxes receivable	5,421	-0-	5,421
	-----	-----	-----
TOTAL LIABILITIES	\$ 6,590	\$ 392	\$ 6,982
FUND BALANCES			
Restricted for public works	\$ 6,255	\$ -0-	\$ 6,255
Unrestricted	370,916	2,519	373,435
	-----	-----	-----
TOTAL FUND BALANCES	\$377,171	\$ 2,519	\$379,690
	-----	-----	-----
TOTAL LIABILITIES AND FUND BALANCES	\$383,761	\$ 2,911	\$386,672
	=====	=====	=====

See accompanying notes to financial statements.

DAFTER TOWNSHIP

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

March 31, 2006

=====

Total Fund Balances - Governmental Funds	\$379,690
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Amounts reported for governmental activities in
the statement of net assets are different because:

Capital assets of \$287,890, net of accumulated
depreciation of \$159,790, are not financial resources
and, therefore, are not reported in the fund.
See note 5 for additional detail.

128,100

NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$507,790

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See accompanying notes to financial statements.

DAFTER TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS

For the year ended March 31, 2006

	GENERAL FUND	FIRE FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Taxes	\$ 52,593	\$ -0-	\$ 52,593
Licenses and fees	23,773	-0-	23,773
State grants	2,968	1,118	4,086
State shared revenues	90,475	-0-	90,475
Contributions from local units	-0-	6,459	6,459
Payments in lieu of taxes	4,283	-0-	4,283
Charges for services	1,171	-0-	1,171
Interest income	9,129	258	9,387
Rental income	975	-0-	975
Other income	1,775	1,660	3,435
	-----	-----	-----
TOTAL REVENUES	\$187,142	\$ 9,495	\$196,637
EXPENDITURES			
Legislative	\$ 3,725	\$ -0-	\$ 3,725
General government	59,422	-0-	59,422
Public safety	6,343	27,100	33,443
Public works	61,196	-0-	61,196
Culture and recreation	100	-0-	100
Other expenditures	26,973	-0-	26,973
	-----	-----	-----
TOTAL EXPENDITURES	\$157,759	\$ 27,100	\$184,859
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ 29,383	\$ (17,605)	\$ 11,778
OTHER FINANCING SOURCES (USES)			
Operating transfers in	\$ -0-	\$ 8,000	\$ 8,000
Operating transfers out	(8,000)	-0-	(8,000)
	-----	-----	-----
TOTAL OTHER FINANCING SOURCES (USES)	\$ (8,000)	\$ 8,000	\$ -0-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER EXPENDITURES	\$ 21,383	\$ (9,605)	\$ 11,778
FUND BALANCES - APRIL 1, 2005	355,788	12,124	367,912
	-----	-----	-----
FUND BALANCES - MARCH 31, 2006	\$377,171	\$ 2,519	\$379,690
	=====	=====	=====

See accompanying notes to financial statements.

DAFTER TOWNSHIP

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the year ended March 31, 2006

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Net change in Fund Balance - Governmental Funds                                $ 11,778

Amounts reported for governmental activities in the
statement of activities are different because:

Governmental funds report capital outlays as expenditures.
However, in the statement of activities, the cost of those
assets is allocated over their estimated useful lives and
reported as depreciation expense. This is the amount by
which capital outlay of $3,399 was exceeded by depreciation
of $17,586 in the current period.                                             14,187
-----
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES                             $ (2,409)
=====
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See accompanying notes to financial statements.

DAFTER TOWNSHIP
BALANCE SHEET - AGENCY FUND

March 31, 2006

=====	
	TAX
	COLLECTION
	FUND
=====	
ASSETS	
Cash and equivalents	\$ 192
	=====
LIABILITIES	
Due to other fund - general	\$ 192
	=====

See accompanying notes to financial statements.

DAFTER TOWNSHIP

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

March 31, 2006

=====	
	PENSION
	TRUST
	FUND
=====	
ASSETS	
Cash and investments	\$ 56,531
	=====
NET ASSETS	
Restricted for pension	\$ 56,531
	=====

See accompanying notes to financial statements.

DAFTER TOWNSHIP

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

For the year ended March 31, 2006

	PENSION TRUST FUND
ADDITIONS	
Contributions	\$ 7,434
Net unrealized gain on investments	8,514

TOTAL ADDITIONS	\$ 15,948
DEDUCTIONS	
Withdrawals	\$ 8,882
Administrative expenses	781

TOTAL DEDUCTIONS	\$ 9,663
NET INCREASE (DECREASE) IN FIDUCIARY NET ASSETS	\$ 6,285
NET ASSETS - APRIL 1, 2005	50,246

NET ASSETS - MARCH 31, 2006	\$ 56,531
	=====

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Dafter Township, conform to the accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The following is a summary of the significant accounting policies used by the Township:

A - REPORTING ENTITY

Financial Reporting Entity

Dafter Township is a regular law Michigan township located in the eastern portion of Michigan's Upper Peninsula.

The Township operates under an elected Board of Trustees and provides services to its residents in many areas including fire and ambulance protection, community enrichment and development, public works, parks and recreation, and general administrative services.

The Township, for financial purposes, includes all funds relevant to the operations of Dafter Township. The financial statements herein do not include agencies which have been formed under applicable State laws or separate and distinct units of government apart from Dafter Township.

B - GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. Dafter Township has no business-type activities or separate component units.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital or

DAFTER TOWNSHIP

NOTE TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2006

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B - GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Dafter Township has the general fund and special revenue fund for fire.

C - MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Taxes Receivable - Current or Property Taxes

The Dafter Township property tax is levied on each December 1st on the taxable valuation of property (as defined by State statutes) located in Dafter Township as of the preceding December 31st.

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2006

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C - MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT
PRESENTATION (CONTINUED)

Although Dafter Township 2006 ad valorem tax is levied and collectible on December 1, 2005, it is Dafter Township's policy to recognize revenue from the current tax levy in the subsequent year or the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2005 taxable valuation of Dafter Township totaled \$21,271,800, on which ad valorem taxes levied consisted of 1.6031 mills for Township operating purposes.

The Township reports the following major governmental funds:

General Fund

This is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Fire Fund

This fund accounts for the designated to support fire protection services in the Township.

Additionally, the Township reports the following fund types:

Agency Funds

Agency Funds are used to account for assets held by the Township as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

All other revenue items are considered to be available only when cash is received by the government.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2006

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C - MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT
PRESENTATION (CONTINUED)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's tax collection function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

D - ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of twelve months or less when acquired. Deposits are recorded at cost.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds."

All trade and property tax receivables are shown as net of allowances for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes considered delinquent of March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items - All inventories, including the cost of supplies, are expensed when purchased. Payments made to vendors for services that will benefit periods beyond March 31, 2006, are recorded as prepaid items.

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2006

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D - ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (CONTINUED)

Fund Balance- In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Capital Assets - Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$200 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

Grants and Other Intergovernmental Revenue - Federal grants and assistance awards for all governmental type funds are recorded as intergovernmental revenue in accordance with the terms of the respective grants.

E - USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2006

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NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles.

Budgets and Budgetary Control - The Township follows these procedures in establishing the budgetary data reflected in the financial statements.

- a. Each March, the Township Board prepares a proposed operating budget for the fiscal period commencing April 1 and lapses on March 31. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to April 1, the budget is legally enacted through a resolution passed by the Township Board.
- d. Budgetary control is exercised at the Township Board level for the General Fund. Any revisions that alter the total expenditures of any fund (i.e., budget amendments) require approval by the Township Board. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The Township does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

Budgeted amounts are as originally adopted or amended by the Township Board during the year. Individual amendments were not material in relation to the original appropriations which were amended. The modified accrual basis of accounting is used for budgetary purposes.

The General fund budget was adopted on the basis of activities or programs financed by the General Fund.

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2006

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NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

Michigan Public Act 621 of 1978 (the Budgeting Act) requires that budgets be adopted for Governmental Funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the Governmental Fund Types for which budgets were legally adopted. The original budget adopted for the General and the major funds were modified throughout the year through various budget amendments. The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the Township Board level.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Agency and Fiduciary Funds
	-----	-----
Cash and Cash Equivalents -		
Restricted	\$ 6,255	\$ -0-
Unrestricted	359,941	192
Investments		
Pension Trust Fund	-0-	56,531
	-----	-----
Totals	\$366,196	\$ 56,723
	=====	=====

The breakdown between deposits and investments is as follows:

	Primary Government	Fiduciary Funds
	-----	-----
Cash and Cash Equivalents		
Bank deposits - checking	\$149,986	\$ 192
Bank deposits - savings	7	-0-
Certificate of deposits	216,203	-0-
	-----	-----
Totals	\$366,196	\$ 192
	=====	=====

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2006

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NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

In accordance with GASB 3 risk disclosure for insurance annuities are non risk categorized.

	Carrying Value -----	Market Value -----
Non risk - Categorized		
Pension Trust Fund		
Insurance annuities	\$56,531	\$56,531

Dafter Township has investments with the Manufacturers Life Insurance for the Defined Contribution Pension Trust Fund which is presented at fair value of the plan assets.

Investment and Deposit Risk

Interest rate risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments.

Credit Risk. The Township has no investments for which ratings are required.

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned. State law does not require and the Township does not have a policy for deposit custodial credit risk. As of March 31, 2006 \$85,553 of the Township's bank balance of \$379,363, was exposed to credit risk because it was uninsured and uncollateralized.

Statutory Authority:

Michigan Law (Public Act 20 of 1943 as amended) authorizes the Township to deposit and invest in one or more of the following:

- a. Bond, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2006

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NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in (a.)
- e. Banker's acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in (a.) through (g.) if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The Township's deposits and investment policy are in accordance with statutory authority.

At year end, the carrying amount of the Township's primary and fiduciary deposits was \$366,388 and the bank balance was \$379,363. Of the bank balance, \$293,810, was covered by federal depository insurance according to FDIC regulations. Also, during the year the Township had funds in excess of \$100,000 on deposit in a particular financial institution which would not have been covered by federal depository insurance.

These deposits are in various financial institutions in varying amounts. All accounts are in the name of the Township. They are recorded in Township records at cost. Interest is recorded when the deposits mature or is credited to the applicable account.

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2006

NOTE 4 - RECEIVABLES

Receivables:	General Fund	Fire Fund	Total
Due from other funds	\$ 192	\$ -0-	\$ 192
Due from other governmental units	14,863	-0-	14,863
	-----	-----	-----
Total Receivables	\$15,055	\$ -0-	\$15,055
	=====	=====	=====

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the primary government for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets being depreciated:				
Buildings	\$150,200	\$ -0-	\$ -0-	\$150,200
Machinery and equipment	95,288	3,399	-0-	98,687
	-----	-----	-----	-----
Subtotal	\$245,488	\$ 3,399	\$ -0-	\$248,887
	-----	-----	-----	-----
Less accumulated depreciation for:				
Buildings	\$ 87,406	\$ 2,804	\$ -0-	\$ 90,210
Machinery and equipment	54,798	14,782	-0-	69,580
	-----	-----	-----	-----
Subtotal	\$142,204	\$ 17,586	\$ -0-	\$159,790
	-----	-----	-----	-----
Net capital assets being depreciated	\$103,284	\$ (14,187)	\$ -0-	\$ 89,097
Land	39,003	-0-	-0-	39,003
	-----	-----	-----	-----
Governmental Activity Capital Total				
Capital Assets-Net of Depreciation	\$142,287	\$ (14,187)	\$ -0-	\$128,100
	=====	=====	=====	=====

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2006

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NOTE 5 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to programs of primary government as follows:

Governmental Activities:

General Fund	
General Government	\$ 3,582
Road Fund	
Public Safety	14,004

Total Depreciation Expense	\$17,586
	=====

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund receivable and payable balances at March 31, 2006 is as follows:

Interfund Receivable		Interfund Payable	
-----		-----	
General	\$ 192	Tax Collection	\$ 192

There was an \$8,000 interfund transfer from the General Fund to the Fire Fund during the year ended March 31, 2006.

NOTE 7 - RESTRICTED NET ASSETS AND CONTINGENCIES

The Township received \$2,968 under the Metropolitan Extension Telecommunications Right-of-Way Oversight Act (PA 48 of 2002, MCLS 484.3101 - 3120), also known as the "Metro Act". This represents the Township's portion of the fees being paid to the state by telecommunication providers for the Right-of-Way used within the Township. This funding is restricted in use to the maintenance of the aforementioned right-of-way. As of March 31, 2006, \$-0- in expenditures have been made for this purpose. The restricted balance as of March 31, 2006 is \$6,255.

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2006

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NOTE 8 - LEGAL COMPLIANCE

Excess of Expenditures over Appropriations in Budgeted Funds

The Uniform Budgeting and Accounting Act P.A. 2 of 1968 as amended (MCL 141.421 et seq.), provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. Dafter Township's actual expenditures and budgeted expenditures have been shown on an activity basis. The approved budgets for Dafter Township for the budgeted budgeted funds were adopted to the activity level.

During the year, Dafter Township incurred expenditures in certain budgeted funds, which were in excess of the amounts appropriated as follows:

<u>Fund</u>	<u>Appropriated</u>	<u>Expended</u>	<u>Variance</u>
General Fund			
General Government			
Clerk	\$11,500	\$11,924	\$ 424
Insurance and Bonds	12,000	14,438	2,438

NOTE 9 - DISTRIBUTION OF TAX COLLECTION

The Township must remit to the schools and the County total taxes collected through the 1st and 15th day of each month within 10 business days after the 1st and 15th day of each month. In addition, the Township is required to remit within ten business days, at least 90% of the total property tax collections on hand as of February 28 for tax revenues that were collected for other taxing units. During the year ended March 31, 2006, the Township remitted taxes to the schools and the county within the required time periods.

NOTE 10 - DEFINED CONTRIBUTION PLAN

Dafter Township maintains a defined contribution plan through Burnham & Flower Agency, Inc. using the Manufacturers Life Insurance Company (USA). The plan name is the Manulife Financial Defined Contribution Pension Plan for Governmental Employees. The plan administrator is the clerk of Dafter Township. The plan is a money purchase pension plan also called a defined contribution, individual account plan because contributions to the plan are fixed and the retirement benefit is that which the total amount of contributions and earnings (money) will provide (purchase) for each employee.

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2006

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NOTE 10 - DEFINED CONTRIBUTION PLAN (CONTINUED)

Participants in the plan are all elected officials of the Township who have attained age 18 and not more than age 75. Currently there are six people in the plan as of March 31, 2006.

The Township board has a policy that permits the Township to have a defined contribution plan which they can amend. They have designated the clerk as plan administrator.

Contributions to the plan for elected officials are made by Dafter Township at a rate of 25% of annual compensation. The contributions for the plan year were \$7,434 by Dafter Township.

The funds of the Dafter Township defined contribution pension plan are invested in Manulife Financial general account at interest rates which are guaranteed if held to maturity. These accounts invest primarily in federal and other governmental bonds, corporate bonds and commercial mortgages and are presented at fair market value on the cash basis.

NOTE 11 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as workmens compensation benefits provided to employees.

The Township participates in the Michigan Township Participating plan for general liability, property loss, automobile, professional, public official errors and omissions liabilities. This plan is a self insurance risk association operating within the State of Michigan pursuant to Act 138, Michigan Public Acts of 1982. This plan through its risk manager, secures insurance policies or reinsurance treaties to cover the risks undertaken on behalf of the Township above the \$100 deductible amount. The Township pays an annual premium of \$10,857 for this plan. The plan has a maximum liability for general liability of \$3,000,000, wrongful acts of \$2,000,000 and automobile liability of \$1,000,000.

Therefore, the Township has no additional liabilities beyond the contribution made to the Michigan Township Participating Plan for general liability, property loss, automobile, professional, public official error and omissions liabilities as it is covered by insurance policies or reinsurance treaties obtained by the plan.

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2006

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NOTE 11 - RISK MANAGEMENT (CONTINUED)

In addition, the Township has purchased commercial insurance for workmens compensation benefits.

Settled claims for the insurance have not exceeded the amount of coverage in the past three years. There was no reduction in coverage obtained through insurance during the past year.

NOTE 12 - CONTINGENT LIABILITIES

The Township has received financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Township. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Township at March 31, 2006.

NOTE 13 - POSTEMPLOYMENT

Dafter Township does not provide any postemployment benefits and, therefore, no accrual has been recorded for these benefits as of March 31, 2006.

NOTE 14 - COMPENSATED ABSENCES

Dafter Township does not have a vacation or a sick leave benefit policy and, therefore, no accrual has been recorded for these benefits as of March 31, 2006.

NOTE 15 - CHANGES IN ACCOUNTING PRINCIPLE

Effective April 1, 2005, the Township implemented several new accounting standards issued by GASB:

Statement No. 33, Accounting and Financial Reporting for Non-Exchange Transactions, as amended by Statement No. 36, Recipient Reporting for Certain Shared Non-Exchange Revenues, which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting.

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2006

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NOTE 15 - CHANGES IN ACCOUNTING PRINCIPLE (CONTINUED)

Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as amended by Statement No. 37, Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments Omnibus, which established new financial reporting standards for state and local governments. This statement requires significant change in the financial reporting model used by local governments, eliminating account groups and utilizing full accrual basis of accounting and the economic resources measurement focus. Another significant change is the Management Discussion and Analysis Section, which provides an overall analysis of the financial position and results of operations and conditions that could have significant effect on the financial position or results of operations.

Statement No. 38, Certain Financial Statement Note Disclosures, which requires certain note disclosures when implementing GASB Statement 34.

NOTE 16 - BUDGET AMENDMENTS

Once approved, the Township may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. Authorized budget amendments were approved as follows:

FUND	AMOUNT
-----	-----
General Fund	
General Government	
Supervisor	\$ 300
Township Hall	2,900
Public Safety	
Zoning	1,400
Roads	(21,400)
Other public works	7,600
Other Expenditures	
Employee benefits	1,200

REQUIRED SUPPLEMENTAL INFORMATION

DAFTER TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the year ended March 31, 2006

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE (OVER) UNDER
REVENUES				
Taxes	\$ 30,000	\$ 30,000	\$ 52,593	\$ (22,593)
Licenses and fees	20,000	20,000	23,773	(3,773)
State grants	1,000	1,000	2,968	(1,968)
State revenue sharing	80,000	80,000	90,475	(10,475)
Payments in lieu of taxes	4,000	4,000	4,283	(283)
Charges for services	4,200	4,200	1,171	3,029
Interest income	1,200	1,200	9,129	(7,929)
Rental income	1,000	1,000	975	25
Other	1,000	1,000	1,775	(775)
	-----	-----	-----	-----
TOTAL REVENUES	\$ 142,400	\$ 142,400	\$187,142	\$ (44,742)
EXPENDITURES				
Legislative				
Township board	\$ 4,180	\$ 4,180	\$ 3,725	\$ 455
General Government				
Supervisor	\$ 9,000	\$ 9,300	\$ 7,740	\$ 1,560
Treasurer	13,050	13,050	11,617	1,433
Assessor	11,036	11,036	10,174	862
Clerk	11,500	11,500	11,924	(424)
Board of Review	1,000	1,000	773	227
Elections	4,800	4,800	1,150	3,650
Attorney and auditor	1,300	1,300	225	1,075
Township Hall	18,300	21,200	15,819	5,381
	-----	-----	-----	-----
Total General Government	\$ 69,986	\$ 73,186	\$ 59,422	\$ 13,764
Public Safety				
Zoning	\$ 4,700	6,100	\$ 5,505	\$ 595
Land division	1,400	1,400	838	562
	-----	-----	-----	-----
Total Public Safety	\$ 6,100	\$ 7,500	\$ 6,343	\$ 1,157

DAFTER TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (CONTINUED)

For the year ended March 31, 2006

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE (OVER) UNDER
EXPENDITURES (CONTINUED)				
Public Works				
Roads	\$ 320,291	\$ 298,891	\$ 47,590	\$ 251,301
Streetlights	1,700	1,700	1,538	162
Refuse	2,500	2,500	1,838	662
Other public works	3,800	11,400	10,230	1,170
Total Public Works	\$ 328,291	\$ 314,491	\$ 61,196	\$ 253,295
Culture and Recreation				
Library	\$ 100	\$ 100	\$ 100	\$ -0-
Parks and recreation	200	200	-0-	200
Total Culture and Recreation	\$ 300	\$ 300	\$ 100	\$ 200
Other Expenditures				
Insurance and bonds	\$ 12,000	\$ 12,000	\$ 14,438	\$ (2,438)
Employee benefits	13,400	14,600	12,535	2,065
Total Other Expenditures	\$ 25,400	\$ 26,600	\$ 26,973	\$ (373)
TOTAL EXPENDITURES	\$ 434,257	\$ 426,257	\$157,759	\$ 268,498
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ (291,857)	\$ (283,857)	\$ 29,383	\$ (313,240)
OTHER FINANCING SOURCES (USES)				
Operating transfers out	(25,000)	(25,000)	(8,000)	(17,000)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER OVER EXPENDITURES	\$ (316,857)	\$ (308,857)	\$ 21,383	\$ (330,240)
FUND BALANCE - APRIL 1, 2005	355,788	355,788	355,788	-0-
FUND BALANCE - MARCH 31, 2006	\$ 38,931	\$ 46,931	\$377,171	\$ (330,240)

DAFTER TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - FIRE FUND

For the year ended March 31, 2006

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE (OVER) UNDER
REVENUES				
State grant	\$ 500	\$ 500	\$ 1,118	\$ (618)
Contribution from local units	5,000	5,000	6,459	(1,459)
Interest income	200	200	258	(58)
Other income	-0-	-0-	1,660	(1,660)
TOTAL REVENUES	\$ 5,700	\$ 5,700	\$ 9,495	\$ (3,795)
EXPENDITURES				
Public safety	\$ 27,375	\$ 31,375	\$ 27,100	\$ 4,275
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ (21,675)	\$ (25,675)	\$ (17,605)	\$ (8,070)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	19,300	19,300	8,000	11,300
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER EXPENDITURES	\$ (2,375)	\$ (6,375)	\$ (9,605)	\$ 3,230
FUND BALANCE - APRIL 1, 2005	12,124	12,124	12,124	-0-
FUND BALANCE - MARCH 31, 2006	\$ 9,749	\$ 5,749	\$ 2,519	\$ 3,230



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MEMBER OF THE MICHIGAN
ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF THE AMERICAN
INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Township Board
Dafter Township
Dafter, MI 49724

We have audited the financial statements of Dafter Township for the year ended March 31, 2006, and have issued our report thereon dated September 7, 2006. Professional standards require that we provide you with the following information related to our audit.

AUDITOR'S RESPONSIBILITY UNDER U.S. GENERALLY ACCEPTED AUDITING STANDARDS

As stated in our engagement letter dated August 15, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of the accounting policies and their application. The significant accounting policies used by Dafter Township are described in Note 1 to financial statements. As described in Note 15 to the financial statements, Dafter Township changed accounting policies related to financial reporting by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 34 Basic Financial Statements - Management's Discussion and Analysis - For State and Local Governments in April 2005. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Net Assets. We noted no transactions entered into by Dafter Township during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are

particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the liability.

AUDIT ADJUSTMENTS

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Township's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Township, either individually or in the aggregate, indicate matters that could have a significant effect on the Township's financial process.

DISAGREEMENT WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

CONSULTATION WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultation with other accountants.

ISSUES DISCUSSED PRIOR TO RETENTION OF INDEPENDENT AUDITORS

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Dafter Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing our audit.

COMMENTS AND RECOMMENDATIONS REGARDING INTERNAL CONTROLS

As part of our audit, we considered the internal control of Dafter Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. Accordingly, we do not express an opinion on the system of internal control structure of Dafter Township taken as a whole. However, our procedures disclosed the following conditions that we would like to bring to your attention.

BUDGET

During the current year, expenditures exceeded the amount appropriated in two instances. Therefore, the Township has not complied with P.A. 621 of 1978, Section 18(1), as amended, which states that a local unit of government shall not incur expenditures in excess of the amount appropriated. We recommend that budget categories should not be over expended and that the budget be monitored and amended as necessary during the year.

CASH AND INVESTMENTS

At year end, the Township had \$85,553 in deposits with financial institutions that were uninsured by federal depository insurance. Also, during the year the Township had funds in excess of \$100,000 on deposit in a particular financial institution which would not have been covered by federal depository insurance. We recommend that the Township insure all funds.

SEGREGATION OF DUTIES

Separation of duties between persons who authorize transactions and persons who have control over the related assets does not exist to the extent possible in larger entities with several employees involved in the accounting process.

The least desirable accounting system is one in which the employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of accounting duties substantially increases control over errors without duplication of effort.

The desired separation of duties cannot be achieved with a few employees involved. The careful and consistent oversight provided by the Township Board appears to offset the inability to separate various accounting functions and should be continued. The Township Board maintains monitoring of current operations. Operating results are reviewed monthly which provides significant oversight for the inspection of any irregularities and discrepancies. The cost for additional staff to enable separation of duties is likely not economically justified and therefore, the Township Board's oversight is assisting in this internal control function. Our finding is intended only to point out that this element of internal control separation of duties does not, and at present, cannot exist.

ACCRUAL BASIS OF ACCOUNTING

The Township needs to incorporate the modified accrual basis of accounting into its interim financial statements. Numerous adjustments were made to attain the modified accrual basis of accounting.

This report is intended solely for the information and use of the Township Board.

Gillett Halvorsen & Leonhardt PC

Gillett, Halvorsen & Leonhardt, P.C.
Certified Public Accountants

September 7, 2006
Sault Ste. Marie, Michigan